

Mortgage Rates Start Lower, But Could See Some Volatility This Week

By: Matthew Graham | Mon, Dec 13 2021, 3:58 PM

Mortgage rates have been fairly flat in the bigger picture, but each passing day continues to bring small scale movements. This is almost always the case, even if rate quotes don't seem to be changing. One key reason for this is the difference between "note rate" and "effective rate." The former is the rate that actually applies to the principal balance of a mortgage. The latter takes upfront costs into consideration as they are technically increasing the interest paid on money borrowed.

Effective rates are easier to change than note rates because note rates are typically offered in .125% increments. It would take a big day of movement in the bond market to prompt a 0.125% change in rate. Upfront costs, on the other hand, can change in much smaller increments. So instead of .125%, a lender could adjust their costs by an equivalent of something as small as 0.01%. Frankly, it could be even lower, but for our tracking purposes, we draw round to the nearest 0.01%.

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With that out of the way, today's effective rates were a bit **lower versus Friday afternoon**. Improvement mostly followed a bond rally which, in turn, followed weakness in the stock market. Low volume contributed to the size of the move, which is to say it would have been even smaller during a busier time of the year for financial markets.

Nonetheless, things will probably get fairly busy in the middle of the week after the Federal Reserve releases its new policy statement. The Fed is expected to announce that it will curtail its rate-friendly bond purchases at a faster pace. Markets have already been bracing for that impact, so there's really no telling what the reaction will be—only that there's likely to be a reaction! **Bottom line:** rates could be rising or falling in bigger chunks in the 2nd half of the week.

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